

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

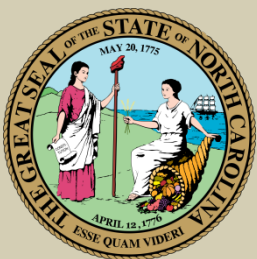
BETH A. WOOD, CPA



NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2020



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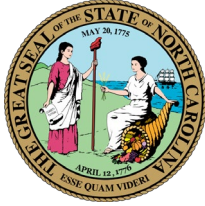


Beth A. Wood, CPA
State Auditor

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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
The Honorable Catherine Truitt, Superintendent
North Carolina Department of Public Instruction

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the North Carolina Department of Public Instruction for the year ended June 30, 2020.

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. However, the results included herein are in relation to our audit scope at the Department and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the North Carolina Department of Public Instruction included the following:

- 84.010 - Title I, Part A - Grants to Local Education Agencies
- 84.287 - Twenty-First Century Community Learning Centers
- 84.377 - School Improvement Grants
- 84.048 - Career and Technical Education - Basic Grants to States
- 84.027 & 84.173 - Special Education Cluster
- 84.424 - Title IV, Part A - Student Support and Academic Enrichment Grants

Our audit was performed by authority of Chapter 147, Article 5A of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types

of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

Other Matters

Compliance

The results of our audit procedures at the North Carolina Department of Public Instruction disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in findings 2 and 3 in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section.

Internal Controls

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we consider the deficiencies described in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section to be significant deficiencies in internal control over compliance.

North Carolina Department of Public Instruction's Response to Findings

The Department's responses to the findings identified in our audit are included in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section of this

transmittal. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the North Carolina Department of Public Instruction based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

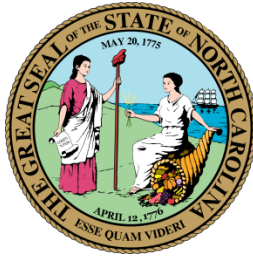
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 22, 2021



FINDINGS, RECOMMENDATIONS, AND VIEWS OF RESPONSIBLE OFFICIALS OF THE AUDITEE

Matters Related to Federal Compliance Audit Objectives

VARIOUS PROGRAMS

1. INADEQUATE AWARD COMMUNICATION

The Department did not adequately and timely notify subrecipients¹ of federal award information for four audited federal programs including Title I, Part A², 21st Century Community Learning Centers (CCLC), Career and Technical Education (CTE), and Special Education - Grants to States. In total, subrecipients of these programs received approximately \$822 million during the fiscal year.

Auditors reviewed subawards made during fiscal year 2020 and found that required information³ was not adequately communicated to subrecipients. Specifically,

- Award information provided to Special Education subrecipients omitted the federal award identification number and period of performance⁴ requirements.
- Award information provided to Title I, Part A subrecipients omitted period of performance requirements.
- Award information provided to CTE subrecipients omitted the federal award identification number.

Additionally, auditors found that the Department did not timely communicate award information for subawards made in fiscal year 2020. Specifically,

- In a sample of 66 out of 267 Title I, Part A subrecipients, 22 (33%) were sent award information two to five months after their applications had been approved and they began spending the funds. Additionally, 17 (26%) had approved applications, but were not sent award information until prompted by the audit.
- In a sample of 18 out of 82 21st CCLC subrecipients, 2 (11%) had approved applications, but were not sent award information until prompted by the audit.

As a result, there is an increased risk that federal funds were not used in accordance with federal requirements.

According to Department management, they did not have procedures to ensure all required award information was adequately and timely communicated to subrecipients.

Federal regulations³ require the Department to clearly identify every subaward to the subrecipient and include specific federal award information at the time of the award.

¹ Subrecipients include local public school districts, charter schools, and nonprofits that receive federal program funds from the Department of Public Instruction.

² Title I, Part A is also referred to as "Title I Grants to Local Education Agencies."

³ 2 CFR 200.332(a) (2020)

⁴ The period of performance is the time during which the subrecipient may incur new obligations to carry out the work authorized under the federal award.

Certain aspects of this finding were previously reported in the 2019 Statewide Single Audit as finding numbers 2019-015 and 2019-048.

Federal Award Information:

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.010A (Title I Part A, Grants to Local Education Agencies); Federal Award Number (award period): S010A190033 (July 1, 2019 - September 30, 2020).

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.027 (Special Education - Grants to States); Federal Award Number (award period): H027A190092 (July 1, 2019 - September 30, 2020).

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.173 (Special Education - Preschool Grants); Federal Award Number (award period): H173A190096 (July 1, 2019 - September 30, 2020).

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.048 (Career and Technical Education - Basic Grants to States); Federal Award Number (award period): V048A190033 (July 1, 2019 - September 30, 2020).

Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.287 (Twenty-First Century Community Learning Centers); Federal Award Number (award period): S287C190033 (July 1, 2019 - September 30, 2020).

Recommendation: Department management should prioritize the development and implementation of procedures to ensure required award information is adequately and timely communicated to subrecipients.

View of Responsible Officials of the Auditee: See pages 8 - 9 for the North Carolina Department of Public Instruction's response to this finding.

TITLE I, PART A - GRANTS TO LEAs

2. FUNDS RESERVED FOR SCHOOL IMPROVEMENT ACTIVITIES USED ELSEWHERE

The Department used \$1.84 million of federal funds earmarked for school improvement activities⁵ on other activities. The Department was awarded \$451 million in 2017 Title I, Part A funds, of which \$31.5 million was earmarked for school improvement activities.

Auditors compared the Department's records of public school unit (PSU) spending for the 2017 award period⁶ to the total federal reimbursement drawdowns and discovered that documentation for \$1.84 million did not support the earmarked purpose of school improvement activities.

⁵ Funding for school improvement activities is provided to identified low or underperforming schools to implement comprehensive and targeted support and improvement plans.

⁶ Federal awards overlap creating the potential for fiscal year expenditures to apply to any of three open awards. The 2017 award period ended in our audit year. The award began on July 1, 2017 and ended on September 30, 2019. The Department had 90 days to liquidate obligations made during the award period.

As a result, the Department could be required to pay \$1.84 million back to the United States Department of Education. Furthermore, inadequate monitoring of award spending increases the risk that federal funds would not be used in accordance with federal requirements, which reduces the funding available for school improvement activities.

According to Department management, the error occurred because the Agency Financial Services division did not have procedures in place to ensure internal budget status reports were updated timely. Furthermore, this prevented the cash management section from correctly reconciling spending across the various open award years.

In accordance with the Elementary and Secondary Education Act,⁷ the Department is required to reserve 7% of their Title I, Part A award for school improvement activities. Further, federal regulations⁸ require costs to be adequately documented and in conformance with limitations of the federal award.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.010 (Title I Grants to Local Education Agencies); Federal Award Identification Number (award period): S010A170033 (July 1, 2017 - September 30, 2018).

Recommendation: Department management should develop procedures to ensure budget status reports and detailed reconciliations of spending by award year are completed timely and accurately throughout the year.

View of Responsible Officials of the Auditee: See page 9 for the North Carolina Department of Public Instruction's response to this finding.

SPECIAL EDUCATION - GRANTS TO STATES (IDEA, PART B)

3. UNALLOWABLE AWARD LIQUIDATION

The Department improperly charged \$7.3 million of expenditures to a Special Education - Grants to States award that was no longer available for obligations.⁹ For the fiscal year, the Department spent \$347.7 million to provide for the education of children with disabilities.

The 2017 award obligation period ended during our audit year. This award began on July 1, 2017, and ended on September 30, 2019. The Department had 90 days to liquidate obligations made during the award period.

Auditors found the Department had reclassified \$7.3 million in Local Education Agency (LEA)¹⁰ and charter school expenditures charged to subsequent period awards to the

⁷ Section 1003(a) of the Elementary and Secondary Education Act

⁸ 2 CFR 200.403

⁹ When used in connection with the Department's utilization of funds under a Federal award, 'obligations' means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-federal entity during the same or a future period.

¹⁰ Synonymous with a local school district, a Local Education Agency, is a public authority, such as a board of education, with administrative control of public schools within a city or county. The Department allocates funds to the LEAs to carry out the objectives of the program.

expired 2017 award without evidence that the expenditures were obligated during the award period.

As a result, the Department may be required to pay \$7.3 million back to the United States Department of Education. Further, improper adjustments of expenses can skew data used to monitor and budget for program activities, putting funding that could be used for additional program activities at risk for reversion to the federal government.

According to Department management, the Agency Financial Services division had insufficient procedures for monitoring the spending of funds reserved and budgeted for the award.

Federal regulations¹¹ require the Department to charge the federal award for allowable costs incurred during the period of performance (award period). The U.S. Department of Education specifies this period as the 27 months extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following year.

This finding was previously reported in the 2019 Statewide Single Audit as finding number 2019-016.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.027(Special Education - Grants to States); Federal Award Number (award period): H027A170092 (July1, 2017 - September 30, 2018).

Recommendation: Department management should prioritize the development and implementation of procedures to ensure timely monitoring of award budgets and spending for compliance with period of performance requirements.

View of Responsible Officials of the Auditee: See page 9 for the North Carolina Department of Public Instruction's response to this finding.

¹¹ 2 CFR 200.309



PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | Catherine Truitt, *Superintendent of Public Instruction*

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March 16, 2021

The Honorable Beth A. Wood, State Auditor
Office of State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the 2020 federal compliance audit. We agree with the findings and recommendations contained in the report and appreciate the assistance provided by the Office of State Auditor (OSA). In our responses below you will find actions we have taken or are currently taking to resolve the issues noted.

Finding 1: Inadequate Award Communication (Various Programs)

OSA Recommendation: Department management should prioritize the development and implementation of procedures to ensure required award information is adequately and timely communicated to subrecipients.

The Department of Public Instruction concurs with the Auditor's finding and recommendation. The finding noted deficiencies within several divisions, which have taken the following corrective actions.

- For Title I, Part A, the grant award notification letter has been amended to include the period of availability and is now in use during the new fiscal year. For both Title I, Part A and 21st CCLC, a standard operating procedure for grant award letter tracking processes was developed and is in use. It includes the use of a centralized tracking document to ensure letters are sent within the required timeframe.
- The Career and Technical Education regional services team has adopted DPI's Universal GAN template which includes the required information, including the federal award identification number. The completed document will be sent to all school districts in the month of June as part of their Perkins Grant Award Notification.
- The Exceptional Children division, which oversees the Special Education grant, has engaged in collaborative corrective action to ensure proper notification of grant awards.

OFFICE OF THE NORTH CAROLINA STATE SUPERINTENDENT

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

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The division has worked with other federal programs and school business in the development of a grant award notification letter to include the required components, including the grant award amount, federal award identification number, and period of availability. These tasks are in the process of being formally operationalized and documented in internal procedures to ensure timely future compliance.

Finding 2: Funds Reserved for School Improvement Activities Used Elsewhere (Title I, Part A)

OSA Recommendation: Department management should develop procedures to ensure budget status reports and detailed reconciliations of spending by award year are completed timely and accurately throughout the year.

The Department of Public Instruction concurs with the Auditor's finding and recommendation. The Financial Services Division within DPI formed a new Grant Section in March 2020, which consists of a Grant Accountant and two General Accountants. The major objective for this section is to monitor, review, approve and reconcile all federal fund draws. The Grant Section works with program managers and the budget section to ensure that budget allocations are correct. The Grant Section reconciles the agency's 208 report to the federal USED G5 report to ensure drawdown accuracy by program.

Finding 3: Unallowable Award Liquidation (IDEA, Part B)

OSA Recommendation: Department management should prioritize the development and implementation of procedures to ensure timely monitoring of award budgets and spending for compliance with period of performance requirements.

The Department of Public Instruction concurs with the Auditor's finding and recommendation. The Financial Services Division within DPI developed and implemented general operating procedures for IDEA funding oversight in August 2020. These procedures clearly articulate the process for completing reallocations, the requirements that must be satisfied when reallocating funds, and any timing limitations for reallocation of funds (including a prohibition on reallocating funds during the liquidation period). DPI worked diligently to implement these procedures in a timely manner following the notification of this issue in the previous fiscal year. Unfortunately, by the time the issue was identified, it had already been repeated in the subsequent award year (which was a previous fiscal year).

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We believe implementation of these corrective actions will address the deficiencies noted.
Please feel free to contact Jeani Rousseau or me if you have any questions about our response.
We appreciate the effort and professionalism of your staff in conducting audits of the
Department of Public Instruction.

Sincerely,



Catherine Truitt

c: Eric Davis, State Board of Education Chairman
Alan Duncan, SBE Audit Committee Chair
Todd Chasteen, Audit Committee Member
Catherine Edmonds, Deputy Superintendent, Office of Equity
David Stegall, Deputy Superintendent of Innovation
Robert Taylor, Deputy Superintendent of School and Student Advancement
Alexis Schauss, Interim Chief Financial Officer
Jeani Rousseau, Director of Internal Audit

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